

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

State of VIRGINIA

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- M. Home Office Costs Allowable operating costs incurred by a home office which are directly assigned to the nursing facility or pooled operating costs that are allocated to the nursing facility in accordance with §14.3 of the Plan.

§4.1. Plant costs

A. Interest

1. Building Interest Interest paid or accrued on notes, mortgages and other loans, the proceeds of which were used to purchase the nursing facility's real property. (See §2.4. for Limitations).
2. Equipment Interest Interest paid or accrued on notes, chattel mortgages and other loans, the proceeds of which were used to purchase the nursing facility's equipment. (See §2.4. for Limitations).

B. Depreciation (§2.12)

1. Building Depreciation Depreciation on the nursing facility's building.
2. Building Improvement Depreciation Depreciation on major additions or improvements to the nursing facility (i.e., new laundry or dining room).
3. Land Improvement Depreciation Depreciation of improvements made to the land occupied by the facility (i.e., paving, landscaping).

TN No. 90-08Approval Date 10-19-90Effective Date 10-01-90

Supersedes

TN No. 86-11

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| 4. | Fixed and movable equipment depreciation | Depreciation on capital assets classified as fixed and movable equipment in compliance with American Hospital Association Guidelines. |
| 5. | Leasehold Improvement Depreciation | Depreciation on major additions or improvements to building or plant where the facility is leased and the costs are incurred by the lessee (tenant). |
| 6. | Automobile Depreciation | Depreciation of those vehicles utilized solely for facility/patient services. |
| C. Lease/Rental | | |
| 1. | Building Rental | Rental amounts paid by the provider on all rented or leased real property (land and building). |
| 2. | Equipment Rental | Rental amounts paid by the provider on leased or rented furniture and equipment. |
| D. Taxes | | |
| 1. | Property Taxes | Amount of taxes paid on the facility's property, plant and equipment. |
| E. Insurance | | |
| 1. | Property Insurance | Cost of fire and casualty insurance on buildings and equipment. |
| 2. | Mortgage Insurance | Premiums required by the lending institution, if the lending institution is made a direct beneficiary and if premiums meet Medicare principles of reimbursement criteria for allowability. |

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| F. | Amortization-Deferred Financing Costs | Amortization of Deferred Financing Costs (those costs directly incident to obtaining financing of allowable capital costs related to patient care services such as legal fees; guarantee fees; service fees; feasibility studies; loan points; printing and engraving costs; rating agency fees). These deferred financing costs should be capitalized and amortized over the life of the mortgage. |
| G. | Home Office Capital Costs | Allowable plant costs incurred by a home office which are directly identified to the nursing facility or pooled capital costs that are allocated to the nursing facility in accordance with §14.3 of the Nursing Home Payment System. |

§5.1. Non-allowable expenses

Non-allowable expenses include but are not limited to the following:

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| a. | Barber and Beautician | Direct and indirect operating and capital costs related to the provision of beauty and barber services to patients. |
| b. | Personal Items | Cost of personal items, such as cigarettes, toothpaste, and shaving cream sold to patients. |
| c. | Vending Machines | Cost of items sold to employees and patients including candy bars and soft drinks. |
| d. | Television/ Telephones | Cost of television sets and telephones used in patient rooms. |

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e.	Gift Shop	Direct and indirect operating and capital cost related to the provision of operating a gift shop.
f.	Insurance - Officers	Cost of life insurance on officers, owners and key employees where the provider is a direct or indirect beneficiary.
g.	Income Taxes	Taxes on net income levied or expected to be levied by any governmental entity.
h.	Contributions	Amounts donated to charitable or other organizations which have no direct effect on patient care.
i.	Deductions from Revenue	Accounts receivable written off as bad debts, charity, courtesy, or from contractual agreements are non-allowable expenses.
j.	Advertising	The cost of advertisements in magazines, newspapers, trade publications, radio, and television and certain home office expenses as defined in PRM-15.
k.	Cafeteria	Cost of meals to other than patients.
l.	Pharmacy	Cost of all prescribed legend and non-legend drugs.
m.	Medical Supplies	Cost of medical supplies to other than patients.
n.	Plant Costs	All plant costs not available for nursing facility patient care related activities are non-reimbursable plant costs.

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§6.1. Nurse aide training and competency evaluation programs and competency evaluation programs (NATCEPs) costs.

A. Facility-Based NATCEPs Costs

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| 1. | Salary-Staff Development | Gross salary of personnel conducting the nurse aide training and competency evaluation programs. |
| 2. | Employee Benefits | Benefits related to personnel conducting the nurse aide training and competency evaluation programs. See §3.1.B. for description of employee benefits. |
| 3. | Contract Services | Cost of State qualified nurse aide instructors paid on a contract basis. |
| 4. | Supplies | Cost of supplies used in conducting NATCEPs (e.g., pencils, papers, erasers, staples, textbooks and other required course materials). |
| 5. | License Fees | Cost of nurse aide registry application fees and competency evaluation testing fees paid by the NFs in behalf of the certified nurse aides. |
| 6. | Housekeeping Expenses | Housekeeping expense as defined in §3.1.D. above, for NFs which dedicate space in the facility to NATCEPs activities one hundred percent (100%). Housekeeping expenses shall be allocated to the NATCEPs operations in accordance with Medicare Principles of Reimbursement. |

TN No. 90-08Approval Date 10-19-90Effective Date 10-01-90

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| 7. | Maintenance and
Operation of Plant | Maintenance and operation of plant as defined in §3.1.F. above, for NFs which dedicate space in the facility to NATCEPs activities one hundred percent (100%). |
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Maintenance and operation of plant expense shall be allocated to the NATCEPs operations in accordance with Medicare Principles of Reimbursement.

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| 8. | Other Direct
Expenses | Any other direct costs associated with the operation of the NATCEPs. There shall be no allocation of indirect patient care operating costs as defined in §3.1., except housekeeping and maintenance and operation of plant expenses. |
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B. Non Facility-Based NATCEPs Costs

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| 1. | Contract Services | Cost of training and competency evaluation of nurse aides paid to an outside State approved nurse aide education program. |
| 2. | Supplies | Cost of supplies of textbooks and other required course materials provided during the nurse aide education programs by the NF. |
| 3. | License Fees | Cost of nurse aide registry application fees and competency evaluation testing fee paid by the NF on behalf of the certified nurse aides. |
| 4. | Travel | Cost for transportation provided to the nurse aides to the training or competency evaluation testing site. |

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| §7.1 | Criminal Records Background
Checks | Cost of obtaining criminal records checks from the Central Criminal Records Exchange for all persons hired for compensated employment after July 1, 1993. |
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TN No. 93-28Approval Date 04-12-94Effective Date 07-01-93

Supersedes

TN No. 90-08

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APPENDIX II

LEASING OF FACILITIES

TN No. 90-08
Supersedes
TN No. 86-11

Approval Date 10-19-90

Effective Date 10-01-90

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APPENDIX II.

LEASING OF FACILITIES

§1.1. Determination of allowable lease costs.

- A. The provisions of this Appendix shall apply to all lease agreements, including sales and leaseback agreements and lease purchase agreements, and including whether or not such agreements are between parties which are related (as defined in §2.10.) of the Nursing Home Payment System (NHPS).
- B. Reimbursement of lease costs pursuant to a lease between parties which are not related shall be limited to the DMAS allowable cost of ownership as determined in E. below. Reimbursement of lease costs pursuant to a lease between parties which are related (as defined in §2.10.) shall be limited to the DMAS allowable cost of ownership. Whether the lease is between parties which are or are not related, the computation of the allowable annual lease expense shall be subject to DMAS audit.
- C. The DMAS allowable cost of ownership shall be determined by the historical cost of the facility to the owner of record at the date the lease becomes effective. When a lease agreement is in effect, whether during the original term or a subsequent renewal, no increase in the reimbursement shall be allowed as a result of a subsequent sale of the facility.
- D. When a bona fide sale has taken place, the facility must have been held by the seller for a period of no less than five years for a lease effected subsequent to the sale date to be compared to the buyer's cost of ownership. Where the facility has been held for less than 5 years, the allowable lease cost shall be computed using the seller's historical cost.
- E. Reimbursement of lease costs pursuant to a lease between parties which are not related (as defined in §2.10.) shall be limited to the DMAS allowable cost of ownership. The following reimbursement principles shall apply to leases, other than those covered in §2.10. and Appendix II §2.1., entered into on or after October 1, 1990:

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1. An "Allowable Cost of Ownership" schedule shall be created for the lease period to compare the total lease expense to the allowable cost of ownership.
2. If the lease cost for any cost reporting period is below the cost of ownership for that period, no adjustment shall be made to the lease cost, and a "carryover credit" to the extent of the amount allowable for that period under the "Allowable Cost of Ownership" schedule shall be created but not paid.
3. If the lease cost for a future cost reporting period is greater than the "Cost of Ownership" for that period, the provider shall be paid this "carryover credit" from prior period(s), not to exceed the cumulative carryover credit or his actual lease cost, whichever is less. At no time during the lease period shall DMAS reimbursement exceed the actual cumulative "Cost of Ownership."
4. Once DMAS has determined the allowable cost of ownership, the provider shall be responsible for preparing a verifiable and auditable schedule to support cumulative computations of cost of ownership vs. lease cost to support the "carryover credit" as reported in the "Allowable Cost of Ownership" schedule, and shall submit such a schedule with each cost report.

§1.2. Documentation of costs of ownership.

- A. Leases shall provide that the lessee or DMAS shall have access to any and all documents required to establish the underlying cost of ownership.
- B. In those instances where the lessor will not share this information with the lessee, the lessor can forward this information direct to DMAS for confidential review.

§1.3. Computation of cost of ownership.

- A. Before any rate determination for allowable lease costs is made, the lessee must supply a schedule comparing lease expense to the underlying cost of ownership for the life of the lease. Supporting documentation, including but not limited to, the lease and the actual cost of ownership (mortgage instruments, financial statements, purchase agreements, etc.) must be included with this schedule.

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- B. The underlying straight-line depreciation, interest, property taxes, insurance, and amortization of legal and commitment fees shall be used to determine the cost of ownership for comparison to the lease costs. Any cost associated with the acquisition of a lease other than those outlined herein shall not be considered allowable unless specifically approved by the Department of Medical Assistance Services.

1. Straight line depreciation.

- a. Depreciation shall be computed on a straight line basis only.
- b. New or additions facilities shall be depreciated in accordance with AHA Guidelines.
- c. Allowable depreciation for on-going facilities shall be computed on the historical cost of the facility determined in accordance with limits on allowable building and fixed equipment cost.
- d. The limits contained in §2.2., §2.3., §2.5.A., §2.5.B.1, §2.5.C., and Part VI shall apply, as appropriate, whether the facility is newly constructed or an on-going facility.

2. Interest.

Interest expense shall be limited to actual expense incurred by the owner of the facility in servicing long-term debt and shall be subject to the interest rate limitations stated in §2.4.

3. Taxes and insurance.

Taxes are limited to actual incurred real estate and property taxes. Insurance is limited to the actual cost of mortgage insurance, fire and property liability insurance. When included in the lease as the direct responsibility of the lessee, such taxes and insurance shall not be a part of the computation of the cost of ownership.

4. Legal and commitment fees.

Amortization of actual incurred closing costs paid by the owner, such as attorney's fees, recording fees, transfer taxes and service or "finance" charges from the lending institution may be included in the comparison of the cost of ownership computation. Such fees shall be subject to limitations and tests of reasonableness stated in these regulations. These costs shall be amortized over the life of the mortgage.

TN No. 90-08Approval Date 10-19-90Effective Date 10-01-90

Supersedes

TN No. 86-11